

CITY OF WENATCHEE, WASHINGTON  
WATER AND SEWER REVENUE BONDS, 2007  
\$5,225,000

ORDINANCE NO. 2007-43

AN ORDINANCE of the City of Wenatchee, Washington, authorizing the issuance and sale of water and sewer revenue bonds of the City in the principal amount of \$5,225,000 to finance certain capital improvements to the water and sewer system of the City, and providing the terms and covenants of the bonds to be issued.

Passed: November 8, 2007

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\* This Table of Contents is provided for reference only and does not constitute a part of the Ordinance for which it is provided.

ORDINANCE NO. 2007-43

AN ORDINANCE of the City of Wenatchee, Washington, authorizing the issuance and sale of water and sewer revenue bonds of the City in the principal amount of \$5,225,000 to finance capital improvements to the water and sewer system of the City, and providing the terms and covenants of the bonds to be issued.

WHEREAS, the City of Wenatchee, Washington (the "City") now owns, maintains and operates a water supply and distribution system and a sewage collection and disposal system, which water and sewer systems have been combined in the manner provided by law (the "System"); and

WHEREAS, the Council of the City (the "Council") by Ordinance No. 98-19 passed on April 29, 1998, authorized the issuance of its Water and Sewer Revenue Bonds, 1998 (the "1998 Bonds"), currently outstanding in the aggregate principal amount of \$2,260,000; and

WHEREAS, the Council by Ordinance No. 2004-32 passed on September 23, 2004, authorized the issuance of its Water and Sewer Revenue Refunding Bonds, 2004 (the "2004 Bonds," and together with the 1998 Bonds, the "Outstanding Parity Bonds"), currently outstanding in the aggregate principal amount of \$4,500,000; and

WHEREAS, the ordinances authorizing the Outstanding Parity Bonds provide that the City may issue additional water and sewer revenue bonds on a parity with the Outstanding Parity Bonds for the purpose of making capital improvements to the System if certain conditions are met; and

WHEREAS, it appears to the Council that it is in the best interests of the City and its ratepayers to acquire, construct and equip certain facilities for the Water Maintenance division and to repair and store equipment for the System; and

WHEREAS, the Council hereby finds that it is in the best interests of the City that the written offer of Banc of America Securities LLC, to purchase the Bonds be accepted and that the Bonds be sold to such firm pursuant to their offer and this ordinance;

NOW, THEREFORE, BE IT ORDAINED by the Council of the City of Wenatchee, Washington, as follows:

Section 1.     Definitions. As used in this ordinance, the following words shall have the following meanings:

“Annual Debt Service” means the aggregate amount required to be paid in any calendar year for the interest on all Parity Bonds then outstanding, for the principal of all Parity Bonds then outstanding except Term Bonds and for the payments required to be made in such year into any Sinking Fund Account for the amortization of Term Bonds.

“Assessment Income” means the principal of and interest on assessments levied in ULIDs and pledged to be paid into the Bond Fund. Assessment Income shall be allocated to the years in which it would be received if the unpaid balance of each assessment roll were paid in the remaining number of installments with interest on the declining balance at the times and at the rate provided in the ordinance confirming the assessment roll.

“Assessments” means all assessments levied in any ULID of the City created for the acquisition or construction of additions and improvements to and extensions of the System, if such assessments are pledged to be paid into the Bond Fund. “Assessments” include any installments of Assessments and any interest or penalties which may be due thereon.

“Bond Fund” means the “Wenatchee Water and Sewer Revenue Bond Fund” created by Section 8 of Ordinance No. 2331.

“Bond Insurance Policy” means the financial guaranty insurance policy issued by the Insurer insuring the payment when due of the principal of and interest on the Bonds as provided therein.

“Bond Register” means the records maintained on behalf of the City containing the name and mailing address of each owner of the Bonds or the nominee of such owner, and such other information as the Bond Registrar shall determine.

“Bond Registrar” means the fiscal agencies of the State of Washington in Seattle, Washington, and New York, New York, for the purpose of registering and authenticating the Bonds, maintaining the Bond Register, effecting transfers of ownership of the Bonds and paying interest on and principal of the Bonds.

“Bond Reserve Account” or “Reserve Account” means the reserve account created in the Bond Fund by Section 8 of Ordinance No. 2331.

“Bonds” means the City’s Water and Sewer Revenue Bonds, 2007, in the aggregate principal amount of \$5,225,000, issued pursuant to this ordinance.

“City” means the City of Wenatchee, Washington, a municipal corporation duly organized and existing under and by virtue of the laws of the State of Washington.

“Code” means the Internal Revenue Code of 1986, as amended, and all applicable regulations and rulings.

“Cost of Maintenance and Operation” means all necessary expenses of operating the System, current maintenance expenses, expenses of reasonable upkeep and repairs, insurance and administrative expenses and reasonable pro rata budget charges for services provided to the System by City departments, but excludes depreciation, payments for debt service or into reserve

accounts, costs of capital additions to or replacements of the System, municipal taxes and payments to the City in lieu of taxes.

“Debt Service Account” means the account of that name created in the Bond Fund by Section 8 of Ordinance No. 2331.

“District” means Public Utility District No. 1 of Chelan County, Washington.

“DTC” means The Depository Trust Company, New York, New York.

“Federal Tax Certificate” means the certificate executed by the Finance Director pertaining to the calculation and payment of any Rebate Amount with respect to the Bonds.

“Insurer” means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company.

“Letter of Representation” means the Blanket Letter of Representations from the City to DTC.

“MSRB” means the Municipal Securities Rulemaking Board or any successors to its functions.

“NRMSIR” means a nationally-recognized municipal securities information repository.

“Net Revenue” means the Revenue of the System less the Cost of Maintenance and Operation.

“1998 Bonds” means the City’s Water and Sewer Revenue Bonds, 1998, issued under date of May 1, 1998 in the principal amount of \$2,720,000 pursuant to Ordinance No. 98-19.

“Operating Fund” means collectively the “Water and Sewer Fund” and the “Regional Water Fund” created in the treasury of the City.

“Parity Bonds” means any revenue bonds or revenue warrants issued by the City which have a lien upon the Revenue of the System to pay and secure the payment of the principal

thereof and interest thereon equal to the lien created upon the Revenue of the System to pay and secure the payment of the principal of and interest on the Bonds. "Parity Bonds" includes the 1998 Bonds, the 2004 Bonds, the Bonds and any future revenue bonds or warrants issued on a parity therewith. "Future Parity Bonds" means any revenue bonds or revenue warrants which may be issued in the future as Parity Bonds.

"Qualified Insurance" means any noncancelable municipal bond insurance policy or surety bond issued by any insurance company licensed to conduct an insurance business in any state of the United States (or by a service corporation acting on behalf of one or more such insurance companies), which insurance company or service corporation, as of the time of issuance of such policy or surety bond, are currently rated in one of the two highest rating categories by either Moody's Investors Service or Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc., or their comparably recognized business successors.

"Qualified Letter of Credit" means any irrevocable letter of credit issued by a financial institution for the account of the City on behalf of the owners of any Parity Bonds, which institution maintains an office, agency or branch in the United States and as of the time of issuance of such letter of credit, is currently rated in one of the two highest rating categories by either Moody's Investors Service or Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc., or their comparably recognized business successor.

"Rate Stabilization Account" means the account of that name authorized to be created within the Operating Fund pursuant to Section 6.

“Rebate Amount” means the amount, if any, determined to be payable with respect to the Bonds by the City to the United States of America in accordance with Section 148(f) of the Code.

“Regional Facilities Operating Account” means the account of that name created in the Operating Fund by Section 7 of Ordinance No. 2352.

“Regional Facilities Repair and Replacement Reserve Account” or “Repair and Replacement Reserve” means the account of that name created in the Operating Fund by Section 7 of Ordinance No. 2352.

“Regional Water Fund” means the “Wenatchee Regional Water Fund” created by Ordinance No. 2284 for the purpose of paying the costs of planning and constructing regional water facilities.

“Revenue of the System” means all earnings, revenue and money received by the City from or on account of the operation of the System, including the income from contract payments by users of regional facilities of the System and income from investments of money in the Operating Fund and the Bond Fund or from any other investment of such earnings and revenue except the income from investments irrevocably pledged to the payment of revenue bonds refunded pursuant to a plan of refunding now or hereafter adopted by the City. The words “Revenue of the System” shall also include federal, state or municipal reimbursements of operating expenses to the extent such expenses are part of the Cost of Maintenance and Operation of the System.

“Rule” means the SEC’s Rule 15c2-12 under the Securities and Exchange Act of 1934, as the same may be amended from time-to-time.

“SEC” means the Securities and Exchange Commission.



“SID” means the state information depository for the State of Washington (if one is created).

“Sinking Fund Account” means an account created in the Bond Fund to amortize the principal of Term Bonds.

“Surety Bond” means the surety bond issued by the Insurer guaranteeing certain payments into the Reserve Account with respect to the Bonds as provided therein and subject to the limitations set forth therein.

“System” means the combined water and sewer system of the City as it now exists and as it may be added to and improved for as long as any Parity Bonds are outstanding. The System includes regional facilities used jointly with other public agencies. The City may combine its storm drainage utility with the System.

“Term Bond Maturity Year” means any year which is designated as a Term Bond Maturity Year in an ordinance authorizing the issuance of Parity Bonds. “Term Bonds” means any Parity Bonds maturing in a Term Bond Maturity Year. “Future Parity Term Bonds” means any Future Parity Bonds maturing in a Term Bond Maturity Year.

“2004 Bonds” means the City’s Water and Sewer Revenue Refunding Bonds, 2004, issued under date of October 1, 2004, in the principal amount of \$8,205,000 pursuant to Ordinance No. 2004-32.

“ULID” means a utility local improvement district in which Assessments have been or will be levied for improvements financed in whole or in part from proceeds of any Parity Bonds.

Section 2. Plan of Improvements. The City hereby specifies and adopts a system or plan of additions to and betterments of the System, consisting of the acquisition, construction and equipping of certain facilities for the Water Maintenance division and to repair and store

equipment for the System and any other capital improvements to the System (collectively, the "Project). The Project will be undertaken in accordance with specifications and contracts for acquisition and construction approved by the Council from time to time.

It is hereby provided that the Project shall be subject to such changes as to details of the Project as may be authorized by the Council either prior to or during the actual course of construction. The City may proceed with the construction and installation of the Project as herein authorized, either alone or in conjunction with the construction of other facilities of the System, and in whole, or in successive parts from time to time as may be found advisable.

The estimated cost of the Project is declared to be, as near as may be, the sum of \$15,900,000, of which approximately \$5,225,000 shall be funded with Bond proceeds.

Section 3. Findings of Parity. The City Council hereby finds and determines as required by Section 10 of Ordinance Nos. 98.19 and 2004-32 (the "Parity Sections") as follows:

- A. That the Bonds will be issued for a lawful purpose of the City relating to the System;
- B. That at the time of adoption of this ordinance and at the time of the issuance and delivery of the Bonds there is not nor will there be any deficiency in the Bond Fund, the Debt Service Account, any Sinking Fund Account or the Reserve Account; and
- C. That the principal of and interest on the Bonds shall be payable out of the Bond Fund and all Reserve Account requirements of Section 6 of Ordinance No. 98-19 of Section 7 of Ordinance No. 2004-32 are met.

The applicable conditions of Ordinance Nos. 98-19 and 2004-32 having been complied with in connection with the issuance of the Bonds, the pledge contained herein of Revenue of the System to pay and secure the payment of the Bonds shall constitute a lien and charge upon such

Revenue equal in rank with the lien and charge upon the Revenue to pay and secure the payment of the 1998 Bonds and the 2004 Bonds.

Section 4.     Authorization of Bonds. The City shall issue and sell the Bonds in the aggregate principal amount of \$5,225,000 to finance the Project. The Bonds shall be designated the "City of Wenatchee, Washington, Water and Sewer Revenue Bonds, 2007," shall be dated as of the date of their initial delivery, shall be fully registered as to both principal and interest, shall be in the denomination of \$5,000 each or any integral multiple thereof, provided that no Bond shall represent more than one maturity, shall be numbered separately in such manner and with any additional designation as the Bond Registrar deems necessary for purposes of identification and control, and shall bear interest at the following rates per annum payable on June 1, 2008, and semiannually thereafter on the first days of each December and June, calculated on the basis of a 360-day year with twelve 30-day months, and shall mature on the first day of December in the years and amounts as follows:

| Maturity<br>Dates | Principal<br>Amounts | Interest<br>Rates |
|-------------------|----------------------|-------------------|
| 2008              | \$ 170,000           | 4.00%             |
| 2009              | 180,000              | 4.00              |
| 2010              | 190,000              | 4.00              |
| 2011              | 195,000              | 4.00              |
| 2012              | 205,000              | 4.00              |
| 2013              | 215,000              | 4.00              |
| 2014              | 220,000              | 4.00              |
| 2015              | 230,000              | 4.00              |
| 2016              | 240,000              | 4.00              |
| 2017              | 250,000              | 4.00              |
| 2018              | 260,000              | 4.00              |
| 2019              | 270,000              | 4.00              |
| 2020              | 280,000              | 4.00              |
| 2021              | 290,000              | 4.125             |
| 2024              | 950,000              | 4.20              |
| 2027              | 1,080,000            | 4.30              |

Section 5. Registration, Exchange and Payments.

A. *Registrar/Bond Register.* The City hereby adopts the system of registration approved by the Washington State Finance Committee, which utilizes the fiscal agency of the State of Washington in New York, New York, as registrar, authenticating agent, paying agent and transfer agent (the "Bond Registrar"). The Bond Registrar shall keep, or cause to be kept, at its principal corporate trust office, sufficient records for the registration and transfer of the Bonds (the "Bond Register"), which shall be open to inspection by the City. The Bond Registrar is authorized, on behalf of the City, to authenticate and deliver Bonds transferred or exchanged in accordance with the provisions of such Bonds and this ordinance and to carry out all of the Bond Registrar's powers and duties under this ordinance. The Bond Registrar shall be responsible for its representations contained in the Certificate of Authentication on the Bonds.

B. *Registered Ownership.* The City and the Bond Registrar may deem and treat the Registered Owner of each Bond as the absolute owner for all purposes, and neither the City nor the Bond Registrar shall be affected by any notice to the contrary. Payment of any such Bond shall be made only as described in Section 5(H) hereof, but such registration may be transferred as herein provided. All such payments made as described in Section 5(H) shall be valid and shall satisfy the liability of the City upon such Bond to the extent of the amount or amounts so paid.

C. *DTC Acceptance/Letter of Representations.* The Bonds shall initially be held in fully immobilized form by DTC acting as depository. To induce DTC to accept the Bonds as eligible for deposit at DTC, the City has heretofore executed and delivered to DTC a Blanket Issuer Letter of Representations (the "Letter of Representations").

Neither the City nor the Bond Registrar will have any responsibility or obligation to DTC participants or the persons for whom they act as nominees with respect to the Bonds for the accuracy of any records maintained by DTC or any DTC participant, the payment by DTC or any DTC participant of any amount in respect of the principal of or interest on Bonds, any notice that is permitted or required to be given to Registered Owners under this ordinance (except such notices as shall be required to be given by the City to the Bond Registrar or to DTC), the selection by DTC or any DTC participants of any person to receive payment in the event of a partial redemption of the Bonds or any consent given or other action taken by DTC as the Registered Owner. For so long as any Bonds are held in fully immobilized form hereunder, DTC or its successor depository shall be deemed to be the Registered Owner for all purposes, and all references in this ordinance to the Registered Owners shall mean DTC or its nominee and shall not mean the owners of any beneficial interest in any Bonds.

D. *Use of Depository.*

(1) The Bonds shall be registered initially in the name of CEDE & Co., as nominee of DTC, with a single Bond for each maturity in a denomination equal to the total principal amount of such maturity. Registered ownership of such immobilized Bonds, or any portions thereof, may not thereafter be transferred except (a) to any successor of DTC or its nominee, provided that any such successor shall be qualified under any applicable laws to provide the service proposed to be provided by it; (b) to any substitute depository appointed by the City pursuant to subsection (2) below or such substitute depository's successor; or (c) to any person as provided in subsection (4) below.

(2) Upon the resignation of DTC or its successor (or any substitute depository or its successor) from its functions as depository or a determination by the City to

discontinue the system of book entry transfers through DTC or its successor (or any substitute depository or its successor), the City may appoint a substitute depository. Any such substitute depository shall be qualified under any applicable laws to provide the services proposed to be provided by it.

(3) In the case of any transfer pursuant to clause (a) or (b) of subsection (1) above, the Bond Registrar shall, upon receipt of all outstanding Bonds, together with a written request on behalf of the City, issue a single new Bond for each maturity then outstanding, registered in the name of such successor or substitute depository, or its nominee, all as specified in such written request of the City.

(4) In the event that (a) DTC or its successor (or substitute depository or its successor) resigns from its functions as depository, and no substitute depository can be obtained, or (b) the City determines that it is in the best interest of the beneficial owners of the Bonds that the Bonds be provided in certificated form, the ownership of such Bonds may then be transferred to any person or entity as herein provided, and shall no longer be held in fully immobilized form. The City shall deliver a written request to the Bond Registrar, together with a supply of definitive Bonds in certificated form, to issue Bonds in any authorized denomination. Upon receipt by the Bond Registrar of all then outstanding Bonds, together with a written request on behalf of the City to the Bond Registrar, new Bonds shall be issued in the appropriate denominations and registered in the names of such persons as are provided in such written request.

E. *Transfer or Exchange of Registered Ownership; Change in Denominations.* The registered ownership of any Bond may be transferred or exchanged, but no transfer of any Bond shall be valid unless it is surrendered to the Bond Registrar with the

assignment form appearing on such Bond duly executed by the Registered Owner or such Registered Owner's duly authorized agent in a manner satisfactory to the Bond Registrar. Upon such surrender, the Bond Registrar shall cancel the surrendered Bond and shall authenticate and deliver, without charge to the Registered Owner or transferee, a new Bond (or Bonds at the option of the new Registered Owner) of the same date, maturity and interest rate and for the same aggregate principal amount in any authorized denomination, naming as Registered Owner the person or persons listed as the assignee on the assignment form appearing on the surrendered Bond, in exchange for such surrendered and canceled Bond. Any Bond may be surrendered to the Bond Registrar and exchanged, without charge, for an equal aggregate principal amount of Bonds of the same date, maturity and interest rate, in any authorized denomination. The Bond Registrar shall not be obligated to transfer or exchange any Bond during a period beginning at the opening of business on the 15th day of the month next preceding any interest payment date and ending at the close of business on such interest payment date or, in the case of any proposed redemption of the Bonds, after the mailing of notice of the call of such Bonds for redemption.

F. *Bond Registrar's Ownership of Bonds.* The Bond Registrar may become the Registered Owner of any Bond with the same rights it would have if it were not the Bond Registrar, and to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as member of, or in any other capacity with respect to, any committee formed to protect the rights of the Registered Owners of the Bonds.

G. *Registration Covenant.* The City covenants that, until all Bonds have been surrendered and canceled, it will maintain a system for recording the ownership of each Bond that complies with the provisions of Section 149 of the Code.

H. *Place and Medium of Payment.* Both principal of and interest on the Bonds shall be payable in lawful money of the United States of America. For so long as all Bonds are in fully immobilized form, payments of principal and interest shall be made as provided in accordance with the operational arrangements of DTC referred to in the Letter of Representations. In the event that the Bonds are no longer in fully immobilized form, interest on the Bonds shall be paid by check or draft mailed to the Registered Owners at the addresses for such Registered Owners appearing on the Bond Register on the 15th day of the month preceding the interest payment date, and principal of the Bonds shall be payable upon presentation and surrender of such Bonds by the Registered Owners at the principal office of the Bond Registrar; provided, however, that if so requested in writing by the Registered Owner of at least \$1,000,000 principal amount of Bonds, interest will be paid by wire transfer on the date due to an account with a bank located within the United States.

Section 6.     Redemption.

A. *Optional Redemption.* The Bonds maturing on December 1 in the years 2008 through 2017 are not subject to redemption prior to their stated maturities. The City hereby reserves the right to redeem the outstanding Bonds maturing on and after December 1, 2018 in whole or in part (maturities to be selected by the City and randomly within a maturity in such manner as DTC or the Bond Registrar, as appropriate, shall determine) on December 1, 2017, and on any date thereafter, at par, plus accrued interest to the date of redemption.

B. *Mandatory Redemption.* The Bonds maturing on December 1, 2024 and December 1, 2027 (which shall be deemed to be Term Bonds), shall be redeemed prior to maturity randomly (or paid at maturity), not later than December 1 in the following years (to the extent such Bonds have not been previously redeemed or purchased) and in the principal



amounts set forth below, without premium, together with the interest accrued to the date fixed for redemption.

2024 Term Bonds

| Year  | Amount     |
|-------|------------|
| 2022  | \$ 305,000 |
| 2023  | 315,000    |
| 2024* | 330,000    |

\* Maturity

2027 Term Bonds

| Year  | Amount     |
|-------|------------|
| 2025  | \$ 345,000 |
| 2026  | 360,000    |
| 2027* | 375,000    |

\* Final maturity

C. *Partial Redemption.* If less than all of the principal amount of any Bond is redeemed, upon surrender of such Bond at the principal office of the Bond Registrar, there shall be issued to the Registered Owner, without charge, for the then unredeemed balance of the principal amount, a new Bond or Bonds, at the option of the Registered Owner, of like maturity and interest rate in any authorized denomination.

D. *Notice of Redemption.* Written notice of any redemption of Bonds shall be given by the Bond Registrar on behalf of the City by first class mail, postage prepaid, not less than 30 days nor more than 60 days before the redemption date to the Registered Owners of Bonds that are to be redeemed at their last addresses shown on the Bond Register. So long as the Bonds are in book-entry form, notice of redemption shall be given as provided in the Letter of Representations.

The requirements of this section shall be deemed complied with when notice is mailed, whether or not it is actually received by the owner.

Each notice of redemption shall contain the following information: (1) the redemption date, (2) the redemption price, (3) if less than all outstanding Bonds are to be redeemed, the identification (and, in the case of partial redemption, the principal amounts) of the Bonds to be redeemed, (4) that on the redemption date the redemption price will become due and payable upon each Bond or portion called for redemption, and that interest shall cease to accrue from the redemption date, (5) that the Bonds are to be surrendered for payment at the principal office of the Bond Registrar, (6) the CUSIP numbers of all Bonds being redeemed, (7) the dated date of the Bonds, (8) the rate of interest for each Bond being redeemed, (9) the date of the notice, and (10) any other information needed to identify the Bonds being redeemed.

Upon the payment of the redemption price of Bonds being redeemed, each check or other transfer of funds issued for such purpose shall bear the CUSIP number identifying, by issue and maturity, the Bonds being redeemed with the proceeds of such check or other transfer.

E. *Effect of Redemption.* Unless the City has revoked a notice of redemption, the City shall transfer to the Bond Registrar amounts that, in addition to other money, if any, held by the Bond Registrar, will be sufficient to redeem, on the redemption date, all the Bonds to be redeemed. From the redemption date interest on each Bond to be redeemed shall cease to accrue.

F. *Amendment of Notice Provisions.* The foregoing notice provisions of this section, including but not limited to the information to be included in redemption notices and the persons designated to receive notices, may be amended by additions, deletions and changes in order to maintain compliance with duly promulgated regulations and recommendations regarding notices of redemption of municipal securities.

G. *Purchase on Open Market.* The City reserves the right to purchase any of the Bonds in the open market at any time and at any price.

Section 7. Operating Fund Priorities and Accounts. Special funds of the City known as the "Water and Sewer Fund" and the "Regional Water Fund" (collectively, the "Operating Fund") have been established. The Revenue of the System, except income from the investment of money in the Bond Fund, shall be deposited in the Operating Fund as collected and the Operating Fund shall be held separate and apart from all other funds and accounts of the City. The money in the Operating Fund shall be used only for the following purposes and in the following order of priority:

First, to pay the Cost of Maintenance and Operation of the System.

Second, to make all payments required to be made into the Debt Service Account to pay the interest on any Parity Bonds for which money shall not have been provided by income from the investment of money in the Bond Fund.

Third, to make all payments required to be made into the Debt Service Account to pay the principal of any Parity Bonds for which money shall not have been provided by income from the investment of money in the Bond Fund.

Fourth, to make all payments which may hereafter be required to be made into any future Sinking Fund Account under any schedule for the amortization of Term Bonds.

Fifth, to make all payments required to be made into the Reserve Account to secure the payment of the Parity Bonds.

Sixth, to make all payments required to be made into the Regional Facilities Repair and Replacement Reserve Account or into any future repair, replacement or

contingency reserve which may be required by the covenants of any ordinance authorizing the issuance of Future Parity Bonds.

Seventh, to make all payments required to be made into any other revenue bond redemption fund or revenue warrant redemption fund and debt service account or reserve account created to pay and secure the payment of the principal of and interest on any revenue bonds or revenue warrants of the City having a lien upon the Revenue of the System and the money in the Operating Fund junior and inferior to the lien thereon for the payment of the principal of and interest on Parity Bonds.

Eighth, to retire by redemption or purchase in the open market any outstanding water and sewer revenue bonds or revenue warrants of the City or to make necessary additions, betterments, improvements, extraordinary repairs, extensions and replacements of the System, or any other lawful City purposes.

Regional Water Fund. A separate fund has been established known as the Regional Water Fund. All costs of maintenance and operation of the regional water supply facilities, as such costs are defined in the contract between the City and the District dated February 13, 1979, and all costs of debt service on bonds issued to pay for regional water supply facilities shall be charged to such fund and all payments chargeable pursuant to such contract for the delivery of water from the regional water supply facilities to the City, the District and any future public agency users thereof and all income received from the investment of moneys derived from such payments shall be credited to such fund. The Regional Water Fund was established for the purpose of separately accounting for the costs of such regional facilities as between the City, the District and any future public agency user of the regional water supply facilities, and the establishment and maintenance of such fund shall not alter or impair the deposit of Revenue of

the System into the Operating Fund or the priority of use of moneys in the Operating Fund as otherwise provided in this section.

Regional Facilities Repair and Replacement Reserve Account. A separate account has been established known as the Regional Facilities Repair and Replacement Reserve Account. The City has set aside and paid into such Account out of the proceeds of the 1979 Bonds the sum of \$250,000. All costs of replacements of and extraordinary repairs to regional water supply facilities which the City determines for any reason should not be paid from money in the Regional Water Fund shall be paid out of the Regional Facilities Repair and Replacement Reserve Account. The Repair and Replacement Reserve was established for the purpose of insuring continuity of water supply for the City, the District and any future public agency user of regional water supply facilities. In the event money is withdrawn from the Repair and Replacement Reserve Account any such withdrawal shall be made up either forthwith from money available on hand in the Water and Sewer Fund and credited to the Regional Water Fund, or within 12 months following such withdrawal from the proceeds of future revenue bonds of the City, or by approximately equal monthly payments out of money to be paid into the Water and Sewer Fund and credited to the Regional Water Fund within a period of not more than two calendar years commencing with the first calendar year after such withdrawal.

Rate Stabilization Account. Once the 1998 Bonds are no longer outstanding, a special account of the City to be designated the "Rate Stabilization Account" (the "Rate Stabilization Account") has been authorized to be created within the Operating Fund, at the discretion of the Finance Director, to cope with future increases in revenue requirements of the System. The City may from time to time appropriate or budget amounts in the Operating Fund for deposit in the Rate Stabilization Account and may from time to time withdraw amounts therefrom to prevent or

mitigate rate increases or for other lawful purposes of the District related to the System. Amounts withdrawn from the Rate Stabilization Account shall increase Revenue of the System for the period for which they are withdrawn, and amounts deposited in the Rate Stabilization Account shall reduce Revenue of the System for the period for which they are deposited. Credits to or from the Rate Stabilization Account that occur within 90 days after the end of a fiscal year may be treated as occurring within such fiscal year. Earnings on the Rate Stabilization Account shall be credited to the Operating Fund.

Section 8. Bond Fund and Accounts—Required Payments. A special fund of the City known as the “Wenatchee Water and Sewer Revenue Bond Fund” (the “Bond Fund”) has heretofore been created and shall be drawn upon for the sole purpose of paying and securing the payment of Parity Bonds. The City shall deposit the Assessments into the Bond Fund for payment of the principal of and interest on Parity Bonds without allocation to any particular series of bonds payable from the Bond Fund.

A. *Debt Service Account.* A Debt Service Account has heretofore been created in the Bond Fund for the purpose of paying the interest on Parity Bonds and the principal of and premium, if any, on any Parity Bonds except Term Bonds.

As long as any Parity Bonds remain outstanding, the City hereby irrevocably obligates and binds itself to set aside and pay from the Operating Fund into the Debt Service Account those amounts necessary, with such other funds as are then on hand and available in the Debt Service Account, to pay the interest on all outstanding Parity Bonds and the principal of all outstanding Parity Bonds except Term Bonds as such interest and principal respectively become due and payable.

B. *Sinking Fund Accounts.* If the City issues any Future Parity Term Bonds, it will provide in each ordinance authorizing the issuance of the same for the creation of a Sinking Fund Account and for a schedule of payments to be made from the Operating Fund into such Sinking Fund Account sufficient to amortize the principal of such Future Parity Term Bonds on or before the maturity date thereof.

C. *Reserve Account.* A Reserve Account has heretofore been created in the Bond Fund for the purpose of securing the payment of Parity Bonds. The City hereby covenants and agrees that upon the issuance of the Bonds there will be on deposit in the Reserve Account, Qualified Insurance in an amount at least equal to the lesser of (a) 1.25 times average Annual Debt Service on such bonds, (b) 10% of the net proceeds of such series of bonds, and (c) maximum Annual Debt Service on such bonds.

The City further covenants and agrees that in the event it issues any Future Parity Bonds it will provide in each ordinance authorizing the issuance of the same that payments will be made into the Reserve Account so that on the date of the issuance of such Future Parity Bonds the total amount in the Reserve Account will be at least equal to the lesser of (a) 1.25 times average Annual Debt Service on such bonds, (b) 10% of the net proceeds of such series of bonds, and (c) maximum Annual Debt Service on such bonds.

The City further covenants and agrees that when the required deposits have been made into the Reserve Account, it will at all times maintain therein an amount at least equal to such maximum amount as the same may be recalculated and determined from time to time. Whenever there is a sufficient amount in the Debt Service Account, any Sinking Fund Account and the Reserve Account to pay the principal of, premium if any, and interest on all Parity Bonds then outstanding, the money in the Reserve Account may be used to pay such principal, premium, if

any, and interest. Money in the Reserve Account may be withdrawn to redeem and retire, and to pay the interest due to such date of redemption and premium, if any, on any outstanding Parity Bonds so long as the money remaining on deposit in the Reserve Account is at least equal to the maximum total amount required in any calendar year thereafter except a Term Bond Maturity Year to be paid for the principal of and interest on all Parity Bonds then outstanding and to make the annual required payments into any Sinking Fund Account.

In the event there shall be a deficiency in the Debt Service Account to meet maturing installments of either interest on or principal of and interest on any Parity Bonds or a deficiency in any Sinking Fund Account to meet the required schedule of payments for the amortization of Term Bonds, such deficiency shall be made up from the Reserve Account by the withdrawal of money therefrom. Any deficiency created in the Reserve Account by reason of any such withdrawal shall be made up out of money in the Operating Fund after making necessary provision for the payments required to be made by subparagraphs First, Second, Third and Fourth of Section 7.

The City may obtain Qualified Insurance or a Qualified Letter of Credit to fund all or a portion of the Reserve Account. Such Qualified Insurance or Qualified Letter of Credit shall not be cancellable on less than five years' notice. In the event of any cancellation, the Reserve Account shall be funded in not more than 18 approximately equal consecutive monthly installments.

D. *Pledge.* Said amounts so pledged to be paid into the Debt Service Account, any Sinking Fund Account and the Reserve Account from the Operating Fund are hereby declared to be a prior lien and charge upon the Revenue of the System superior to all other charges of any kind or nature whatsoever except the Cost of Maintenance and Operation



of the System and except that the amounts so pledged are of equal lien to the charges upon such Revenue which has or may hereafter be made to pay and secure the payment of the principal of and interest on Parity Bonds.

E. The Council hereby finds that in fixing the amounts to be paid into the Bond Fund out of the Revenue of the System, it has exercised due regard for the Cost of Maintenance and Operation and has not obligated the City to set aside and pay into such Fund a greater amount of such Revenue than in its judgment will be available over and above the Cost of Maintenance and Operation.

F. *Investments.* Money in the Bond Fund not needed to pay the interest or principal next coming due on any outstanding Parity Bonds or to provide the amounts of money required for any Sinking Fund Account or to maintain required reserves may be used to redeem and retire such Parity Bonds or may be invested as permitted by law. Investments in the Reserve Account shall mature not later than the last maturity of any then outstanding Parity Bonds. All interest earned and income derived by virtue of investments of money in the Debt Service Account, any Sinking Fund Account or the Reserve Account shall remain in the Bond Fund and all such investment income may be used to meet the required deposits into any account in the Bond Fund.

Section 9. Application of Bond Proceeds. The proceeds of the Bonds, after payment of the premium for the Bond Insurance Policy and the Surety Bond, shall be deposited into the Regional Water Fund and applied to pay costs of the Project and costs of issuing the Bonds.

Section 10. Defeasance. In the event that money and/or "Government Obligations" (as now or may hereafter be defined in Ch. 39.53 RCW or its successor statute, if any) maturing at such time or times and bearing interest to be earned thereon in amounts (together with such

money if necessary) sufficient to redeem and retire the Bonds or any of them in accordance with their terms are set aside in a special account to effect such redemption or retirement and such money and/or the principal of and interest on such obligations are irrevocably set aside and pledged for such purpose, then no further payments need be made into the Bond Fund for the payment of the principal of and interest on the Bonds so provided for and the owners of such Bonds shall cease to be entitled to any lien, benefit or security of this ordinance except the right to receive the funds so set aside and pledged, and such Bonds shall be deemed not to be outstanding hereunder.

Section 11. Certain Covenants. The City hereby covenants and agrees with the owner of each of the Parity Bonds for as long as any of the same remain outstanding as follows:

A. The City shall establish, maintain and collect lawful rates and charges for the use of the services and facilities of the System and all commodities sold, furnished or supplied by the System, and shall adjust such rates and charges from time to time so that:

(1) the Revenue of the System will at all times be sufficient (a) to pay all costs of and charges and expenses in connection with the proper operation and maintenance of the System, (b) to pay the principal of and interest on outstanding Parity Bonds, as and when the same shall become due and payable, (c) to make all payments required to be made into any Sinking Fund Account for the amortization of Term Bonds, (d) to make when due all payments which the City is obligated to make into the Reserve Account, (e) to make all other payments which the City is obligated to make pursuant to this ordinance and (f) to pay all taxes, assessments or other governmental charges lawfully imposed on the System or the revenue therefrom or payments in lieu thereof and any and all other amounts which the City may now and hereafter become obligated to pay from the Revenue of the System by law or contract; and

(2) the Net Revenue in each calendar year will equal at least 1.25 times the Annual Debt Service required to be paid in any calendar year thereafter. Once the 1998 Bonds are no longer outstanding, the City covenants that it will establish, maintain and collect rates and charges for water and sanitary sewage collection and disposal service in an amount to provide Net Revenue together with Assessment Income at least equal to the sum of (a) 125% of the amounts required in such calendar year to be paid as Annual Debt Service on the Parity Bonds minus the amount of Assessments collected in such year and (b) 100% of the amount of Assessments collected in such year.

B. After making or providing for the payments from the Operating Fund as required by Section 7 hereof, there shall be maintained in such Fund sufficient money to enable the City to continuously meet the Cost of Maintenance and Operation of the System on a current basis.

C. The City shall promptly take action to enforce the payment of delinquent service charges or contract payments by such means as are legally available.

D. The City will at all times keep and maintain the System in good repair, working order and condition and will at all times operate the System and the business in connection therewith in an efficient manner and at a reasonable cost.

E. The City will not sell or otherwise dispose of the System in its entirety unless simultaneously with such sale or disposition provision is made for payment into the Bond Fund of cash or Government Obligations (as now or hereafter defined in RCW 39.53) sufficient to pay the principal of and interest on all then outstanding Parity Bonds in accordance with the terms thereof nor will it sell or otherwise dispose of any part of the useful operating properties of the System in excess of 5% of the net utility plant of the System unless provision

is made for payment into the Bond Fund of an amount which shall be in at least the same proportion to the net amount of Parity Bonds outstanding (defined as the total amount of such Parity Bonds less the amount of cash and investments in the Bond Fund and accounts therein) that the net revenue from the portion of the System sold or disposed of for the preceding fiscal year bears to the Net Revenue of the System for the same period. Any money so paid into the Bond Fund shall be used to retire all or part of such Bonds outstanding at the earliest possible date.

F. The City will not furnish any service of the System to any customer whatsoever free of charge.

G. The City will keep and maintain proper books and accounts with respect to the operations, income and expenditures of the System that are in accordance with proper and legal accounting procedures. After each fiscal year of the City's operation of the System it will prepare or cause to be prepared an operating statement of the System for such preceding fiscal year. Each such statement shall contain a statement in detail of the Revenue of the System, necessary and current expenses of operation and maintenance, repairs, administrative expenses and expenditures for capital purposes of the System for such fiscal year and shall contain a statement as of the end of such year showing the status of all the funds and accounts created by the various ordinances pertaining to the operation of the System and authorizing the issuance of outstanding bonds payable from the Revenue of the System. Copies of such statement shall be placed on file in the office of the City Clerk and shall be open to inspection at any reasonable time by any owner or holder of outstanding Parity Bonds. All expenses incurred in the maintenance of such books and accounts and the preparation of such statement may be regarded and paid as an expense of operation of the System.

Section 12.    Future Parity Bonds.    The City hereby further covenants and agrees with the owners of each of the Bonds for as long as any of the same remain outstanding as follows:

The City will not issue any bonds having a greater or equal priority of lien upon the Revenue of the System to pay and secure the payment of the principal of and interest on such Bonds than the priority of lien created on such Revenue to pay and secure the payment of the principal of and interest on any outstanding Parity Bonds except as follows:

A.        The City reserves the right to issue Future Parity Bonds for the purposes of

First, providing funds to acquire, construct, reconstruct, install, or replace any equipment, facilities, additions, betterments, or other capital improvements to the System for which it is authorized by law to issue revenue bonds, or

Second, refunding at or prior to their maturity any revenue bond anticipation notes or outstanding revenue bonds or other obligations payable out of the Revenue of the System and to pledge that payments will be made out of money in the Operating Fund into the Bond Fund and the accounts therein to pay and secure the payment of the principal of and interest on such Future Parity Bonds on a parity with the payments required herein to be made out of such money into such Bond Fund and accounts to pay and secure the payment of the principal of and interest on any Parity Bonds then outstanding upon compliance with the following conditions:

(1)        At the time of the issuance of any Future Parity Bonds there is no deficiency in the Bond Fund, the Debt Service Account, any Sinking Fund Account or the Reserve Account.

(2) The principal of and interest on any Future Parity Bonds shall be payable out of the Bond Fund and the requirements for Reserve Account payments in Section 6 hereof shall be met.

(3) If Future Parity Term Bonds are to be issued, the ordinances authorizing their issuance shall provide for the creation of a Sinking Fund Account and for a schedule of payments to be made from the Operating Fund into such Sinking Fund Account sufficient to amortize the principal of such Future Parity Term Bonds on or before the maturity date thereof.

(4) Prior to the delivery of any Future Parity Bonds, the City shall have on file in the office of the City Clerk a certificate of an independent engineer experienced in the design, construction and operation of municipal utilities showing that the Net Revenue determined and adjusted as hereinafter provided for each calendar year after the issuance of such Future Parity Bonds (the "Adjusted Net Revenue") will equal at least 1.25 times the Annual Debt Service required to be paid in any calendar year thereafter (once the 1998 Bonds are no longer outstanding, Adjusted Net Revenue together with Assessment Income shall be equal to at least the sum of (a) 125% of the amounts required in each year to be paid as Annual Debt Service on all Parity Bonds outstanding plus the Parity Bonds proposed to be issued minus the amount of Assessments due in each year and (b) 100% of the amount of Assessments due in each year) (the "Coverage Requirement").

The Adjusted Net Revenue shall be the Net Revenue for a period of any 12 consecutive months out of the 24 months immediately preceding the date of delivery of such proposed Future Parity Bonds as adjusted by such engineer to take into consideration changes in Net Revenue

estimated to occur under the following conditions for each year after such delivery for so long as any Parity Bonds, including the Future Parity Bonds proposed to be issued, shall be outstanding:

(a) the additional Net Revenue which would have been received if any change in rates and charges adopted prior to the date of such certificate and subsequent to the beginning of such 24 month period had been in force during the full 24 month period;

(b) the additional Net Revenue which would have been received if any facility of the System which became fully operational after the beginning of such 24 month period had been so operating for the entire period;

(c) the additional Net Revenue estimated by such engineer to be received as a result of any additions, betterments and improvements to and extensions of any facilities of the System which (i) are under construction at the time of such certificate or (ii) will be constructed from the proceeds of the Future Parity Bonds to be issued; and

(d) the additional Net Revenue which would have been received if any customers added to the System during such 24 month period were customers for the entire period.

Such engineer may rely upon, and his certificate shall have attached thereto, financial statements of the System certified by the City Finance Director showing income and expenses for the period upon which the same is based. The certificate of such engineer shall be conclusive and the only evidence required to show compliance with the provisions and requirements of this subsection (4).

In lieu of such certificate of an engineer, prior to the issuance of Future Parity Bonds the City may have on file a certificate of an appropriate financial officer of the City stating that the

Coverage Requirement will be met based on the Net Revenues for a period of any 12 consecutive months out of the 24 months preceding the delivery of such bonds for any future year on all outstanding Parity Bonds and the Future Parity Bonds to be issued.

Notwithstanding the foregoing requirement, if Future Parity Bonds are to be issued for the purpose of refunding at or prior to their maturity any part or all of the then outstanding Parity Bonds and the issuance of such refunding Future Parity Bonds will result in a debt service savings and does not require an increase of more than \$5,000 in any fiscal or calendar year for principal of and interest on such refunding Future Parity Bonds over and above the amount required in such year for the principal of and interest on the bonds being refunded thereby, the condition stated in subsection A(4) of this section need not be met.

B. Nothing herein contained shall prevent the City from issuing revenue bonds or other obligations which are a charge upon the Revenue of the System junior or inferior to the payments required by this ordinance to be made out of such Revenue into the Bond Fund and accounts therein to pay and secure the payment of any outstanding Parity Bonds.

C. Nothing herein contained shall prevent the City from issuing revenue bonds to refund maturing Parity Bonds for the payment of which money is not otherwise available.

Section 13. Lost or Destroyed Bonds. In case any Bonds shall be lost, stolen or destroyed, the Bond Registrar may authenticate and deliver a new bond or bonds of like amount, date, and tenor to the registered owner thereof upon the owner paying the expenses and charges of the Bond Registrar in connection therewith and upon his or her filing with the Bond Registrar and the City evidence satisfactory to both that such Bond or Bonds were actually lost, stolen or



destroyed and of his or her ownership thereof, and upon furnishing the Bond Registrar and the City with indemnity satisfactory to the Finance Director.

Section 14. Form of Bonds. The Bonds shall be in substantially the following form:

Financial Guaranty Insurance Policy No. 27242BE (the "Policy") with respect to payments due for principal of and interest on this Bond has been issued by Ambac Assurance Corporation ("Ambac Assurance"). The Policy has been delivered to The Bank of New York, New York, New York, as the Insurance Trustee under said Policy and will be held by such Insurance Trustee or any successor insurance trustee. The Policy is on file and available for inspection at the principal office of the Insurance Trustee and a copy thereof may be secured from Ambac Assurance or the Insurance Trustee. All payments required to be made under the Policy shall be made in accordance with the provisions thereof. The owner of this Bond acknowledges and consents to the subrogation rights of Ambac Assurance as more fully set forth in the Policy.

No. \_\_\_\_\_ UNITED STATES OF AMERICA \$ \_\_\_\_\_  
STATE OF WASHINGTON  
CITY OF WENATCHEE  
WATER AND SEWER REVENUE BOND, 2007  
INTEREST RATE: \_\_\_\_\_ MATURITY DATE: \_\_\_\_\_ CUSIP NO.: \_\_\_\_\_  
REGISTERED OWNER: \_\_\_\_\_  
PRINCIPAL AMOUNT: \_\_\_\_\_ DOLLARS

The City of Wenatchee, Washington, a municipal corporation organized and existing under and by virtue of the laws of the State of Washington (herein called the "City") hereby acknowledges itself to owe and for value received promises to pay, but only from the sources and as hereinafter provided, to the Registered Owner identified above, or registered assigns, on the Maturity Date identified above, the Principal Amount indicated above and to pay interest thereon from November 21, 2007 or the most recent date to which interest has been paid or duly provided for, at the Interest Rate set forth above, payable June 1, 2008, and semiannually thereafter on the first days of each December and June until such principal sum is paid or payment has been duly provided for. Both principal of and interest on this bond are payable in lawful money of the United States of America. For so long as the bonds of this issue are held in fully-immobilized form, payments of principal and interest thereon shall be made as provided in accordance with the operational arrangements of The Depository Trust Company ("DTC") referred to in the Blanket Issuer Letter of Representations from the City to DTC. In the event that the bonds of this issue are no longer held in fully immobilized form, interest on this bond shall be paid by check or draft mailed to the Registered Owner at the address appearing on the Bond Register on the 15<sup>th</sup> day of the month preceding the interest payment date, and principal of this bond shall be payable upon presentation and surrender of this bond by the Registered Owner

at the principal office of the fiscal agency of the State of Washington in New York, New York (the "Bond Registrar").

This bond and the bonds of this issue are payable solely from the special fund of the City known as the "Wenatchee Water and Sewer Revenue Bond Fund" (herein called the "Bond Fund") created by Ordinance No. 2331 of the City. The City has irrevocably obligated and bound itself to pay into the Bond Fund out of the Revenue of the System or from such other money as may be provided therefor in the Bond Ordinance certain amounts necessary to pay and secure the payment of the principal and interest on such bonds.

The bonds of this issue are not general obligations of the City.

This bond is one of an authorized issue of bonds of the City of like date and tenor except as to number, amount, rate of interest and date of maturity in the aggregate principal amount of \$5,225,000. This issue of bonds is authorized by Ordinance No. 2007-43 of the City (herein called the "Bond Ordinance") for the purpose of financing capital improvements to the water and sewer system of the City.

The bonds are subject to optional and mandatory redemption as provided in the Bond Ordinance.

The bonds are interchangeable for bonds of any authorized denomination of an equal aggregate principal amount and of the same interest rate and maturity upon presentation and surrender to the Bond Registrar.

The City does hereby pledge and bind itself to set aside from the Operating Fund out of the Revenue of the System and to pay into the Bond Fund and the accounts created therein the various amounts required by the Bond Ordinance to be paid into and maintained in such Fund and accounts, all within the times provided by the Bond Ordinance.

To the extent more particularly provided by the Bond Ordinance the amounts so pledged to be paid from the Operating Fund out of the Revenue of the System into the Bond Fund and accounts therein shall be a lien and charge thereon equal in rank to the lien and charge upon said Revenue of the amounts required to pay and secure the payment of the outstanding revenue bonds of the City issued under date of May 1, 1998 and October 1, 2004 and any revenue bonds of the City hereafter issued on a parity with the bonds of this issue and superior to all other liens and charges of any kind or nature, except the Cost of Maintenance and Operation of the System.

The City hereby covenants and agrees with the owner of this bond that it will keep and perform all the covenants of this bond and of the Bond Ordinance to be by it kept and performed, and reference is hereby made to the Bond Ordinance for a complete statement of such covenants.

The City has further bound itself to maintain the System in good repair, working order and condition, to operate the same in an efficient manner and at a reasonable cost, and to establish, maintain and collect rates and charges for as long as any of the bonds of this issue are outstanding that will make available, for the payment of the principal thereof and interest thereon as the same shall become due, Net Revenue in an amount which will be equal to at least 1.25 times the Annual Debt Service required to be paid in any year hereafter.

The pledge of Revenue of the System and other obligations of the City under the Bond Ordinance may be discharged at or prior to the maturity or redemption of the bonds of this issue upon the making of provision for the payment thereof on the terms and conditions set forth in the Bond Ordinance.

The capitalized terms used herein have the meanings set forth in the Bond Ordinance. Reference is made to the Bond Ordinance and any and all modifications and amendments thereof for a description of the nature and extent of the security for the bonds of this issue, the funds or revenues pledged, and the terms and conditions upon which such bonds are issued.

This bond shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Bond Ordinance (as hereinafter defined) until the Certificate of Authentication hereon shall have been manually signed by the Bond Registrar.

It is hereby certified that all acts, conditions, and things required by the Constitution and statutes of the State of Washington to exist, to have happened, been done, and performed precedent to and in the issuance of this bond have happened, been done, and performed.

IN WITNESS WHEREOF, the City has caused this bond to be signed with the facsimile signature of the Mayor, to be attested by the facsimile signature of the City Clerk, and the corporate seal of the City to be imprinted hereon, all as of this 21<sup>st</sup> day of November, 2007.

CITY OF WENATCHEE, WASHINGTON

By *Dennis Johnson*  
Mayor

(SEAL)

ATTEST:

*Wicki Reuster*  
City Clerk

#### CERTIFICATE OF AUTHENTICATION

Date of Authentication: \_\_\_\_\_

This bond is one of the bonds described in the within-mentioned Bond Ordinance and is one of the Water and Sewer Revenue Bonds, 2007, of the City of Wenatchee, Washington, dated November 21, 2007.

WASHINGTON STATE FISCAL  
AGENCY, Bond Registrar

By \_\_\_\_\_  
Authorized Officer

Section 15. Execution and Authentication of the Bonds. The Bonds shall be signed on behalf of the City with the facsimile or manual signature of the Mayor and attested by the facsimile or manual signature of the City Clerk. The seal of the City shall be impressed or a facsimile thereof imprinted on the face of each Bond.

Only such Bonds as shall bear thereon a Certificate of Authentication in the form hereinbefore recited, manually executed by the Bond Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this ordinance. Such Certificate of Authentication shall be conclusive evidence that the Bonds so authenticated have been duly executed, authenticated, and delivered hereunder and are entitled to the benefits of this ordinance.

In case either of the officers who shall have executed the Bonds shall cease to be an officer or officers of the City before the Bonds so signed shall have been authenticated or delivered by the Bond Registrar, or issued by the City, such Bonds shall be valid nevertheless and may be issued by the City with the same effect as though the persons who had executed such Bonds had not ceased to be such officers.

Section 16. Sale of the Bonds. The Bonds shall be sold to Banc of America Securities LLC, upon the terms provided in this ordinance and set forth in the written proposal to the City, a copy of which is on file with the City Clerk, and said proposal is hereby accepted.

Section 17. Approval of Official Statement. The Finance Director is hereby authorized to review, and approve on behalf of the City, an Official Statement to be used in the sale of the Bonds. The Council hereby deems the Preliminary Official Statement prepared in connection with the sale of the Bonds as final, pursuant to the Rule, except for the omission of information dependent upon the pricing of the Bonds and the completion of the underwriting agreement.

Section 18. Authorization to Officials and Agents. The appropriate City officials, agents and representatives are hereby authorized and directed to do everything necessary for the prompt issuance, execution and delivery of the Bonds and for the proper use and application of the proceeds of the sale thereof.

Section 19. Supplemental Ordinances.

A. The Council may adopt an ordinance or ordinances supplemental to this ordinance, which supplemental ordinance or ordinances thereafter shall become a part of this ordinance, for any one or more or all of the following purposes:

(1) To add to the covenants and agreements of the City in this ordinance contained other covenants and agreements thereafter to be observed, which shall not adversely affect the interests of the owners of any Parity Bonds, or to surrender any right or power herein reserved to or conferred upon the City.

(2) To make such provisions for the purpose of curing any ambiguities or of curing, correcting or supplementing any defective provision contained in this ordinance or any ordinance authorizing Future Parity Bonds in regard to matters or questions arising under such ordinances as the Council may deem necessary or desirable and not inconsistent with such ordinances and which shall not adversely affect the interest of the holders of Parity Bonds. Any such supplemental ordinance of the City may be adopted without the consent of the holders of any Parity Bonds at any time outstanding, notwithstanding any of the provisions of subsection B of this section.

B. With the consent of the owners of not less than 65% in aggregate principal amount of the Parity Bonds at the time outstanding, the Council of the City may adopt an ordinance or ordinances supplemental hereto for the purpose of adding any provisions to or

changing in any manner or eliminating any of the provisions of this ordinance or of any supplemental ordinance; provided, however, that no such supplemental ordinance shall:

(1) Extend the fixed maturity of any Parity Bonds or the time of payment of interest thereon from their due date, or reduce the rate of interest thereon or the amount of the principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the owner of each bond so affected; or

(2) Reduce the aforesaid percentage of bondowners required to approve any such supplemental ordinance, without the consent of the owners of all of the Parity Bonds then outstanding.

It shall not be necessary for the consent of bondowners under this subsection B to approve the particular form of any proposed supplemental ordinance, but it shall be sufficient if such consent shall approve the substance thereof.

Section 20. Tax Covenants; Special Designation. The City shall comply with the provisions of this section unless, in the written opinion of Bond Counsel to the City, such compliance is not required in order to maintain the exemption of the interest on the Bonds from federal income taxation.

The City hereby covenants that it will not make any use of the proceeds of sale of the Bonds or any other funds of the City which may be deemed to be proceeds of such Bonds pursuant to Section 148 of the Code and the applicable regulations thereunder that will cause the Bonds to be "arbitrage bonds" within the meaning of said section and said regulations. The City will comply with the requirements of Section 148 of the Code (or any successor provision thereof applicable to the Bonds) and the applicable regulations thereunder throughout the term of the Bonds.

The City further covenants that it will not take any action or permit any action to be taken that would cause the Bonds to constitute “private activity bonds” under Section 141 of the Code.

The City will pay any rebate amount to the United States of America at the times and in the amounts necessary to meet the requirements of the Code to maintain the federal income tax exemption of the interest payments on the Bonds, in accordance with the Federal Tax Certificate.

The City Council hereby designates the Bonds as “qualified tax-exempt obligations” pursuant to Section 265(b)(3) of said Code relating to financial institutions. The City does not expect to issue more than \$10,000,000 of qualified obligations (including the Bonds) in 2007.

Section 21. Undertaking to Provide Ongoing Disclosure.

A. *Contract/Undertaking.* This section constitutes the City’s written undertaking for the benefit of the owners of the Bonds as required by Section (b)(5) of the Rule.

B. *Financial Statements/Operating Data.* The City agrees to provide or cause to be provided to each NRMSIR and to the SID, if any, in each case as designated by the SEC in accordance with the Rule, the following annual financial information and operating data for the prior fiscal year (commencing in 2008 for the fiscal year ended December 31, 2007):

(1) Annual financial statements showing ending fund balances for the System prepared in accordance with the Budget Accounting and Reporting System prescribed by the Washington State Auditor pursuant to RCW 43.09.200 (or any successor statute) and generally of the type included in the official statement for the Bonds under the table “Historical Operating Results and Debt Service Coverage”;

(2) Principal amount of outstanding Parity Bonds;

(3) Debt service coverage for outstanding Parity Bonds; and

(4) Rates for the System.

Such annual information and operating data described above shall be provided on or before nine months after the end of the City's fiscal year. The City's current fiscal year ends December 31. The City may adjust such fiscal year by providing written notice of the change of fiscal year to each then existing NRMSIR and the SID, if any. In lieu of providing such annual financial information and operating data, the City may cross-reference to other documents provided to the NRMSIR, the SID or to the SEC and, if such document is a final official statement within the meaning of the Rule, available from the MSRB.

If not provided as part of the annual financial information discussed above, the City shall provide the City's audited annual financial statement prepared in accordance with the Budget Accounting and Reporting System prescribed by the Washington State Auditor pursuant to RCW 43.09.200 (or any successor statute) when and if available to each then existing NRMSIR and the SID, if any.

C. *Material Events.* The City agrees to provide or cause to be provided, in a timely manner, to the SID, if any, and to each NRMSIR or to the MSRB notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers or their failure to perform;



(6) Adverse tax opinions or events affecting the tax-exempt status of the Bonds;

(7) Modifications to the rights of Bondholders;

(8) Optional redemption of Bonds prior to their maturity;

(9) Defeasances;

(10) Release, substitution or sale of property securing repayment of the Bonds; and

(11) Rating changes.

Solely for purposes of disclosure, and not intending to modify this undertaking, the City advises that no property secures repayment of the Bonds.

D. *Notification Upon Failure to Provide Financial Data.* The City agrees to provide or cause to be provided, in a timely manner, to each NRMSIR or to the MSRB and to the SID, if any, notice of its failure to provide the annual financial information described in subsection B above on or prior to the date set forth in Subsection B above.

E. *Termination/Modification.* The City's obligations to provide annual financial information and notices of material events shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. This section, or any provision hereof, shall be null and void if the City (1) obtains an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require this section, or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the Bonds; and (2) notifies each then existing NRMSIR and the SID, if any, of such opinion and the cancellation of this section.

Notwithstanding any other provision of this ordinance, the City may amend this Section 21, and any provision of this Section 21 may be waived, with an approving opinion of nationally recognized bond counsel in accordance with the Rule.

In the event of any amendment or waiver of a provision of this Section 21, the City shall describe such amendment in the next annual report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (1) notice of such change shall be given in the same manner as for a material event under subsection C, and (2) the annual report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

F. *Bond Owner's Remedies Under This Section.* A bondowner's or Beneficial Owner's right to enforce the provisions of this section shall be limited to a right to obtain specific enforcement of the City's obligations hereunder, and any failure by the City to comply with the provisions of this undertaking shall not be an event of default with respect to the Bonds under this ordinance. For purposes of this section, "Beneficial Owner" means any person who has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds, including persons holding Bonds through nominees or depositories.

Section 22. Bond Insurance; Surety Bond.

A. *Acceptance of Insurance.* The City hereby approves the commitments of the Insurer to provide a bond insurance policy guaranteeing the payment when due of principal of and interest on the Bonds (the "Bond Insurance Policy") and to provide a reserve surety to fund the Reserve Account for the Bonds (the "Surety Bond"). The City further authorizes and directs all proper officers, agents, attorneys and employees of the City to execute a commitment letter with the Insurer and to cooperate with the Insurer in preparing such additional agreements, certificates, and other documentation on behalf of the City, including but not limited to the Surety Bond Agreement, as shall be necessary or advisable in providing for the Bond Insurance Policy and the Surety Bond.

B. *Payments Under the Bond Insurance Policy.* As long as the Bond Insurance Policy shall be in full force and effect, the City and the Bond Registrar agrees to comply with the following provisions:

(1) At least one business day prior to all interest payment dates, the City will determine whether there will be sufficient funds in the Bond Fund to pay the principal of or interest on the Bonds on such interest payment date. If the City determines that there will be insufficient funds in such fund, it shall so notify the Insurer. Such notice shall specify the amount of the anticipated deficiency, the Bonds to which such deficiency is applicable and whether such Bonds will be deficient as to principal or interest, or both. If the City has not so notified the Insurer at least one business day prior to an interest payment date, the Insurer will make payments of principal or interest due on the Bonds on or before the first business day next following the date on which the Insurer shall have received notice of nonpayment.

(2) The City shall, after giving notice to the Insurer as provided in (1) above, make available to the Insurer and, at the Insurer's direction, to The Bank of New York, in New York, New York, as insurance trustee for the Insurer or any successor insurance trustee (the "Insurance Trustee"), the registration books of the City maintained by the Bond Registrar, if any, and all records relating to the funds and accounts maintained under this ordinance.

(3) the City shall provide the Insurer and the Insurance Trustee with a list of registered owners of Bonds entitled to receive principal or interest payments from the Insurer under the terms of the Bond Insurance Policy, and shall make arrangements with the Insurance Trustee (i) to mail checks or drafts to the registered owners of Bonds entitled to receive full or partial interest payments from the Insurer and (ii) to pay principal upon Bonds surrendered to the Insurance Trustee by the registered owners of Bonds entitled to receive full or partial principal payments from the Insurer.

(4) The City shall, at the time it provides notice to the Insurer pursuant to (1) above, notify registered owners of Bonds entitled to receive the payment of principal or interest thereon from the Insurer (i) as to the fact of such entitlement, (ii) that the Insurer will remit to them all or a part of the interest payments next coming due upon proof of bondholder entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate assignment of the registered owner's right to payment, (iii) that should they be entitled to receive full payment of principal from the Insurer, they must surrender their Bonds (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such Bonds to be registered in the name of the Insurer) for payment to the Insurance Trustee, and (iv) that should they be entitled to receive

partial payment of principal from the Insurer, they must surrender their Bonds for payment thereon first to the Bond Registrar who shall note on such Bonds the portion of the principal paid by the Bond Registrar, and then, along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal.

(5) In the event that the Bond Registrar has notice that any payment of principal of or interest on a Bond which has become due for payment and which is made to a bondholder by or on behalf of the City has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Bond Registrar shall, at the time the Insurer is notified pursuant to (1) above, notify all registered owners that in the event that any registered owner's payment is so recovered, such registered owner will be entitled to payment from the Insurer to the extent of such recovery if sufficient funds are not otherwise available, and the Bond Registrar shall furnish to the Insurer its records evidencing the payments of principal of and interest on the Bonds which have been made by the Bond Registrar, and subsequently recovered from registered owners and the dates on which such payments were made.

(6) In addition to those rights granted the Insurer under this ordinance, the Insurer shall, to the extent it makes payment of principal of or interest on Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Bond Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Bond Registrar shall note the Insurer's rights as subrogee on the registration books of the City maintained by the Bond Registrar upon receipt from the Insurer of

proof of the payment of interest thereon to the registered owners of the Bonds, and (ii) in the case of subrogation as to claims for past due principal, the Bond Registrar shall note the Insurer's rights as subrogee on the registration books of the City maintained by the Bond Registrar upon surrender of the Bonds by the registered owners thereof together with proof of the payment of principal thereof.

(7) Notwithstanding anything herein to the contrary, in the event that the principal and/or interest due on the Bonds shall be paid by the Insurer pursuant to the Bond Insurance Policy, the Bonds shall remain outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the City, and the assignment and pledge of the ordinance and all covenants, agreements and other obligations of the City to bondholders of Bonds shall continue to exist and shall run to the benefit of the Insurer, and the Insurer shall be subrogated to the rights of such bondholders.

C. *Consent of the Insurer.* Any provision of this ordinance expressly recognizing or granting rights in or to the Insurer may not be amended in any manner which affects the rights of the Insurer hereunder without the prior written consent of the Insurer. The Insurer reserves the right to charge the City a fee for any consent or amendment to this ordinance while the Bond Insurance Policy or Surety Bond are outstanding.

D. *Consent of the Insurer in Lieu of Bondholder Consent.* Unless otherwise provided in this section, the Insurer's consent shall be required in lieu of bondholder consent, when required, for the following purposes: (i) execution and delivery of any supplemental ordinance or any amendment, supplement or change to or modification of this ordinance; (ii) removal of the Bond Registrar and selection and appointment of any successor Bond

Registrar (other than the designated State fiscal agent); and (iii) any initiation or approval of any action not described in (i) or (ii) above which requires bondholder consent.

E. *Consent of the Insurer in the Event of Insolvency.* Any reorganization or liquidation plan with respect to the City must be acceptable to the Insurer. In the event of any reorganization or liquidation, the Insurer shall have the right to vote on behalf of all bondholders who hold Ambac Assurance Corporation-insured bonds absent a default by the Insurer under the Bond Insurance Policy.

F. *Consent of the Insurer Upon Default.* Anything in this ordinance to the contrary notwithstanding, upon the occurrence and continuance of an event of default as defined herein, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the bondholders for the benefit of the bondholders under this ordinance.

G. *The Insurer as Third Party Beneficiary.* To the extent that this ordinance confers upon or gives or grants to the Insurer any right, remedy or claim under or by reason of this ordinance, the Insurer is hereby explicitly recognized as being a third-party beneficiary hereunder and may enforce any such right, remedy or claim conferred, given or granted hereunder.

H. *Parties Interested Herein.* Nothing in this ordinance expressed or implied is intended or shall be construed to confer upon, or to give or grant to, any person or entity, other than the City, the Insurer or the Bond Registrar, and the registered owners of the Bonds, any right, remedy or claim under or by reason of this ordinance or any covenant, condition or stipulation hereof, and all covenants, stipulations, promises or agreements in this ordinance contained by and on behalf of the City shall be for the sole and exclusive benefit of the City, the Insurer, the Bond Registrar, and the registered owners of the Bonds.

I. *Rights of Insurer.* While the Bond Insurance Policy or Surety Bond are in effect, the City shall furnish to the Insurer (to the attention of the Surveillance Department, unless otherwise indicated):

(1) as soon as practicable after the filing thereof, a copy of any financial statement of the City and a copy of any audit and annual report of the City;

(2) a copy of any notice to be given to the registered owners of the Bonds, including, without limitation, notice of any redemption of or defeasance of Bonds, and any certificate rendered pursuant to this ordinance relating to the security for the Bonds; and

(3) the Insurer shall be included as party to be notified pursuant to the City's continuing disclosure undertaking with respect to the Bonds outlined in Section 21 of this ordinance; and

(4) such additional information the Insurer may reasonably request.

J. The City shall notify the Insurer of any failure of the City to provide relevant notices or certificates.

K. The City will permit the Insurer to discuss the affairs, finances and accounts of the City or any information the Insurer may reasonably request regarding the security for the Bonds with appropriate officers of the City. The City will permit the Insurer to have access to and to make copies of all books and records relating to the Bonds at any reasonable time.

L. The Insurer shall have the right to direct an accounting at the City's expense, and the City's failure to comply with such direction within 30 days after receipt of written notice at the direction from the Insurer shall be deemed a default hereunder; provided, however, that if compliance cannot occur within such period, then such period will be extended



so long as compliance is begun within such period and diligently pursued, but only if such extension would not materially adversely affect the interests of any registered owner of the Bonds.

M. Notwithstanding any other provision of this ordinance, the City shall immediately notify the Insurer if at any time there are insufficient money to make any payments of principal and/or interest as required and immediately upon the occurrence of any event of default hereunder.

N. The City hereby covenants and agrees that it shall reimburse the Insurer for any amounts paid under the Bond Insurance Policy and all costs of collection thereof and enforcement of this ordinance and any other documents executed in connection with this ordinance, together with interest thereon, from the date paid or incurred by the Insurer until payment thereof in full by the City, payable at the Insurer Payment Rate (as hereinafter defined), including without limitation (to the extent permitted by applicable law) interest on claims paid by the Insurer in respect of interest on the Bonds. Such payment obligation shall be payable on demand and (except for costs of collection and enforcement) on a parity with, and from the same sources and secured by the same security as, regularly scheduled principal and interest payments in respect of the Bonds. For purposes of the foregoing, "Insurer Payment Rate" shall mean the lesser of (i) the maximum rate permissible under applicable usury or similar laws limiting interest rates and (ii) the greater of (1) the then applicable highest rate of interest on the Bonds and (2) the per annum rate of interest, publicly announced from time to time by JPMorgan Chase Bank, N.A. ("Chase") at its principal office in the City of New York, as its prime or base lending rate ("Prime Rate") (any change in such Prime Rate to be effective on the date such change is announced by Chase) plus three percent. The Insurer Payment Rate shall be computed on the

basis of the actual number of days elapsed over a year of 360 days. In the event that Chase ceases to announce its Prime Rate publicly, Prime Rate shall be the publicly announced prime or base lending rate of such national bank as the Insurer shall specify.

O. *Payments Under the Surety Bond.* As long as the Surety Bond shall be in full force and effect, the City and Bond Registrar agree to comply with the following provisions:

(i) In the event and to the extent that money on deposit in the Reserve Account, plus all amounts on deposit in and credited to the Reserve Account in excess of the amount of the Surety Bond, are insufficient to pay the amount of principal and interest coming due, then upon the later of: (a) one day after receipt by the General Counsel of the Insurer of a demand for payment in the form attached to the Surety Bond as Attachment 1 (the "Demand for Payment"), duly executed by the Bond Registrar certifying that payment due under this ordinance has not been made to the and Bond Registrar; or (b) the payment date of the Bonds as specified in the Demand for Payment presented by the and Bond Registrar to the General Counsel of the Insurer, the Insurer will make a deposit of funds in an account with the and Bond Registrar or its successor, in New York, New York, sufficient for the payment to the and Bond Registrar, of amounts which are then due to the and Bond Registrar under this ordinance (as specified in the Demand for Payment) up to but not in excess of the Surety Bond Coverage, as defined in the Surety Bond; provided, however, that in the event that the amount on deposit in, or credited to, the Reserve Account, in addition to the amount available under the Surety Bond, includes amounts available under a letter of credit, insurance policy, surety bond or other such funding instrument (the "Additional Funding Instrument"), draws on the Surety Bond and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency.

(ii) The City shall, after submitting to the Insurer the Demand for Payment as provided in subsection (i) above, make available to the Insurer all records relating to the funds and accounts maintained under this ordinance.

(iii) The City shall, upon receipt of money received from the draw on the Surety Bond, as specified in the Demand for Payment, credit the Reserve Account to the extent of money received pursuant to such demand.

(iv) The Reserve Account shall be replenished in the following priority: (a) principal and interest on the Surety Bond shall be paid from first available Revenues of the System, and (b) after all such amounts are paid in full, amounts necessary to fund the Reserve Account to the required level, after taking into account the amounts available under the Surety Bond shall be deposited from next available Revenues of the System.

Section 23. Severability. If any one or more of the covenants or agreements provided in this ordinance to be performed on the part of the City shall be declared by any court of competent jurisdiction to be contrary to law, then such covenant or covenants, agreement or agreements shall be null and void and shall be separable from the remaining covenants and agreements in this ordinance and shall in no way affect the validity of the other provisions of this ordinance or of the Bonds.

Section 24. Effective Date. This ordinance shall be effective five days after its passage, approval and publication as provided by law.

PASSED by the City Council of the City of Wenatchee, Washington, this 8<sup>th</sup> day of  
November, 2007.

CITY OF WENATCHEE, WASHINGTON

By   
Mayor

ATTEST:

  
City Clerk

CERTIFICATE

I, the undersigned, the duly appointed, qualified and acting Clerk of the city of Wenatchee, Washington, and keeper of the records of the City Council (herein called the "Council"), DO HEREBY CERTIFY:

1. That the attached Ordinance No. 2007-43 (herein called the "Ordinance") is a true and correct copy of an ordinance of the Council, as finally passed at a regular meeting of the Council held on the 8<sup>th</sup> day of November, 2007, and duly recorded in my office.

2. That said meeting was duly convened and held in all respects in accordance with law, and to the extent required by law, due and proper notice of such meeting was given; that a legal quorum was present throughout the meeting and a legally sufficient number of members of the Council voted in the proper manner for the passage of said Ordinance; that all other requirements and proceedings incident to the proper passage of said Ordinance have been duly fulfilled, carried out and otherwise observed, and that I am authorized to execute this certificate.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the City of Wenatchee, Washington, as of this 8<sup>th</sup> day of November, 2007.

  
City Clerk

(SEAL)